

# BUDGET LETTER

<b>SUBJECT:</b> ESCALATION OF CONSTRUCTION COSTS FOR STATE FUNDED CAPITAL OUTLAY PROJECTS	<b>NUMBER:</b> BL 06-23
<b>REFERENCES:</b> SAM SECTION 6818	<b>DATE ISSUED:</b> August 22, 2006
	<b>SUPERSEDES:</b> BL 05-21

TO: Agency Secretaries  
Department Directors  
Department Budget Officers  
Department Accounting Officers  
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

In previous years, the Department of General Services (DGS) has provided yearly updates of the "projected California Construction Cost Index (CCCI), which the state used in estimates to escalate construction costs for state funded capital outlay projects. The CCCI is an average of the Building Construction Cost Indices for Los Angeles and San Francisco, as published in the Engineering News Record. Consistent with instructions provided last year, in lieu of publishing a "projected" CCCI for July 1, 2007, DGS will publish each month the current CCCI data at <http://www.resd.dgs.ca.gov/CaliforniaConstructionCostIndexPage.htm>. Departments must apply the most recently published CCCI when preparing budget package, preliminary plans, or working drawings estimates for a given project.

Additionally, construction costs shall be escalated on a monthly basis starting from the date the CCCI for the project was last updated to the estimated start and mid point of construction at a rate of **0.42** percent. This escalation represents a projected annual increase of 5.0 percent. The monthly escalation is not to be compounded; instead the escalation to the start of construction is to be calculated by multiplying the number of months estimated between the date the CCCI for the project was published and the start of construction by 0.42 percent.

See attached Example #1: If a budget package for a new project is completed in June 2005, the published CCCI of 4393 will be used for the estimate. In this example the start of construction is estimated to be 40 months from June 2005, the construction contract amount is \$500,000 and the escalation rate is .0042/mo. The equation would be  $\$500,000 \times 40 \times .0042$  which equals \$84,000. The same calculation is completed for the midpoint of construction; however, the estimated total current costs plus the escalation to the start of construction are combined to be used as the base. The equation would be  $\$584,000 \times 5 \times .0042$  which equals \$12,300.

See attached Example #2: The preliminary plans are completed in June 2007 for the same project, and the CCCI at that time is 4832 (4832 used for example only), and the new construction estimate is prepared totaling \$547,200. Now only 16 months will remain between the completion of preliminary plans and the start of construction. Using the same calculations as noted above, the new escalation amount for this project will be \$36,800. This process will again be followed at the completion of working drawings.

See attached Example #3: This example shows the sample project at the completion of working drawings in May of 2008 at an assumed CCCI of 5219. Three changes to the project are illustrated here: First, the CCCI increased 8 percent over the preceding year ( $5219 / 4832 = 1.08$ ). This represents a 3 percent increase in cost over the 5 percent (.042 percent) annual escalation to start of construction carried in the previous estimate. Second, the introduction of an approved scope change (Kiosk) will add \$10,000 in direct cost.

Third, a delay in the project schedule will extend the time to the start of construction by 2 months and is reflected as 7 months to the "Start of Construction" vs. 5 months if the project had remained on the original project schedule. Each of the changes is reflected under the appropriate category in the new "Cost Increase/Decrease" table at the bottom of the Cost, Funding and Schedule Summary Form (Example #4).

See attached Example #4: At each phase of the project, a Capital Outlay Cost, Funding and Schedule Summary shall be provided to identify any adjustments to the projects funding or schedule. Each phase of the project shall identify the current CCCI and all cost increases or decreases shall be designated as CCCI, escalation, contingency, or other. A brief explanation shall be given to any cost increases or decreases.

Note: No CCCI changes will be allowed at any other time unless prior approval is granted by the Department of Finance (Finance). The escalation rate will be reviewed annually by DGS and updated as necessary based upon Finance approval. Furthermore, all cost increases shall be subject to the approval of each individual department or agency and Finance.

Departments are required to base their 2007-08 Capital Outlay Budget Change Proposals (COBCPs) on the published CCCI as described above. Therefore, any previously submitted 2006-07 COBCPs may need to be technically updated to recalculate construction costs using the appropriate CCCI. Revised COBCPs must be submitted to Finance no later than **September 8, 2006** (per BL 06-04).

For any questions, contact your Capital Outlay budget analyst at (916) 445-9694.

/s/ Fred Klass

Fred Klass  
Program Budget Manager

Attachments

**DEPARTMENT OF GENERAL SERVICES  
REAL ESTATE SERVICES DIVISION – PROJECT MANAGEMENT BRANCH  
PROJECT COST SUMMARY**

PROJECT:	DOF Example #1	BUDGET EST.:	B5DOF1AP
LOCATION:	N/A	EST. / PROJ. CCCI:	4393 / 4393
CLIENT:	Department of Finance	DATE ESTIMATED:	6/15/2005
DESIGN BY:		ABMS NO.:	
PROJECT MGR:		PREPARED BY:	JDE
TEMPLATE:	Design / Bid / Build – Bond	DOF PROJ. I.D. NO.:	

**DESCRIPTION**

**ESTIMATE SUMMARY**

**DIRECT COST**

Landscaping	\$200,000
Sidewalks	\$100,000
Lighting	\$200,000

**ESTIMATED TOTAL CURRENT COSTS:**

**\$500,000**

Adjust CCCI from 4393 to 4393

**ESTIMATED TOTAL CURRENT COSTS ON JUNE 2005**

**\$500,000**

Escalation to Start of Construction 40 Months @ 0.42% / Mo.: \$84,000

Escalation to Midpoint 5 Months @ 0.42% / Mo.: \$12,300

**ESTIMATED TOTAL CONTRACTS:**

**\$596,300**

Contingency At: 5% \$29,800

**ESTIMATED TOTAL CONSTRUCTION COST:**

**\$626,100**

**DEPARTMENT OF GENERAL SERVICES  
REAL ESTATE SERVICES DIVISION – PROJECT MANAGEMENT BRANCH  
PROJECT COST SUMMARY**

PROJECT:	DOF Example #2	PRELIMINARY EST.:	P7DOF1AP
LOCATION:	N/A	EST. / PROJ. CCCI:	4832 / 4832
CLIENT:	Department of Finance	DATE ESTIMATED:	6/08/2007
DESIGN BY:		ABMS NO.:	
PROJECT MGR:		PREPARED BY:	JDE
TEMPLATE:	Design / Bid / Build – Bond	DOF PROJ. I.D. NO.:	

**DESCRIPTION**

**ESTIMATE SUMMARY**

**DIRECT COST**

Landscaping	\$219,000
Sidewalks	\$109,500
Lighting	\$218,700

**ESTIMATED TOTAL CURRENT COSTS:**

**\$547,200**

Adjust CCCI from 4832 to 4832

**ESTIMATED TOTAL CURRENT COSTS ON JUNE 2007**

**\$547,200**

Escalation to Start of Construction 16 Months @ 0.42% / Mo.:

\$36,800

Escalation to Midpoint 5 Months @ 0.42% / Mo.:

\$12,300

**ESTIMATED TOTAL CONTRACTS:**

**\$596,300**

Contingency At: 5%

\$29,800

**ESTIMATED TOTAL CONSTRUCTION COST:**

**\$626,100**

**DEPARTMENT OF GENERAL SERVICES  
REAL ESTATE SERVICES DIVISION – PROJECT MANAGEMENT BRANCH  
PROJECT COST SUMMARY**

PROJECT:	DOF Example #3	W. D. ESTIMATE:	W8DOF1AP
LOCATION:	N/A	EST. / PROJ. CCCI:	5219 / 5219
CLIENT:	Department of Finance	DATE ESTIMATED:	5/15/2008
DESIGN BY:		ABMS NO.:	
PROJECT MGR:		PREPARED BY:	SMD
TEMPLATE:	Design / Bid / Build – Bond	DOF PROJ. I.D. NO.:	

**DESCRIPTION**

Example #3

**ESTIMATE SUMMARY**

**DIRECT COST**

Landscaping	\$236,500
Sidewalks	\$118,300
Lighting	\$236,200
Kiosk	\$10,000

**ESTIMATED TOTAL CURRENT COSTS:**

**\$601,000**

Adjust CCCI from 5219 to 5219

**ESTIMATED TOTAL CURRENT COSTS ON MAY 2008**

**\$601,000**

Escalation to Start of Construction 7 Months @ 0.42% / Mo.:

\$17,700

Escalation to Midpoint 5 Months @ 0.42% / Mo.:

\$13,000

**ESTIMATED TOTAL CONTRACTS:**

**\$631,700**

Contingency At: 5%

\$31,600

**ESTIMATED TOTAL CONSTRUCTION COST:**

**\$663,300**